

**POLYETHYLENE RETAIL CARRIER BAGS
FROM INDONESIA, TAIWAN, AND VIETNAM**

INVESTIGATION NOS. 701-TA-462 AND 731-TA-1156-1158 (FINAL)

HEARING BEFORE THE INTERNATIONAL TRADE COMMISSION

MARCH 16, 2010

STATEMENT OF ISAAC BAZBAZ

Good morning. My name is Isaac Bazbaz. I am and have been a director of Superbag since its establishment in 1988. Superbag is a family-owned, private company with headquarters in Houston, Texas. We are one of the largest U.S. producers of t-shirt style polyethylene retail carrier bags.

We operate a single plant that is totally dedicated to the production of PRCBs. We have about 250 employees.

Our bags are generally sold to grocery stores and retail outlets. As you know, these bags are given away for free.

The process for making PRCBs is generally the same everywhere in the world. It is a five-step process.

First, polyethylene resins and color concentrates are blended and injected into an extruder. Second, the mixture is extruded into film. Third, the film is wound into rolls and fed into a printer, where a custom design is printed on the film. Fourth, the film is converted into bags by cutting the film into the desired

shape and size and heat sealing the top and bottom. Finally, the finished bags are inspected, packaged, and placed in inventory.

Manufacturers of PRCBs in Vietnam, Indonesia, and Taiwan use the same raw materials, employ generally the same production processes, and use similar production machinery as producers in the United States. Imported bags from these countries and PRCBs made in the United States are perfect substitutes. In fact, in most cases, the imported and domestic products are identical. Many retailers buy T-shirt bags from U.S. producers like Superbag and Hilex and also buy PRCBs from Vietnam, Taiwan, or Indonesia, and they use the domestic and imported products interchangeably. As a result, competition is based on price.

The Commission found in the prior investigation that imports from China, Malaysia, and Thailand were highly substitutable for the domestic product. The facts are no different in these investigations. There are no significant physical or other non-price differences between the T-shirt bags that we and other domestic producers make, and the T-shirt bags that are being imported from Indonesia, Taiwan, and Vietnam. This is why these products are commonly purchased by major retailers through internet bids, including reverse auctions. You wouldn't see such bidding procedures, if the retailer viewed the product as anything other than a commodity.

The reality that this is a commodity is also reflected in the fact that some domestic producers are using blended sales programs. That is, a domestic producer will commit to sell a customer its higher-priced domestic bags and lower-priced imported bags at a single average price. This approach works only because the customer sees the imported and domestic products as identical. Hence, the only way that we can try to compete with imports from Indonesia, Taiwan, and Vietnam is on the basis of price. One other practice that is increasingly common is the reverse internet auction, which makes price the focus of competition.

Here are samples of typical T-shirt bags. The first is a product we make for **Walmart**. The second is an imported product sold by Spectrum to Walmart. The imported bag is not marked with the country of origin, but Spectrum's logos appear on the bag, and we know that Spectrum imports bags from the subject countries. During the Staff Conference, we submitted a carton we obtained that shows that Walmart buys bags made in Indonesia.

Next is a comparison of our bag for **K mart** and Spectrum's bag for K mart.

Finally, here is a bag we have made for **Target** and an imported bag for Target. I do not know for sure who is the importer. The indicated country of origin is Vietnam. As you know from the public information submitted with our brief to the Commission, "API reached an agreement with Target as a result of a

reverse internet auction {that} contemplated that all bags would be produced in Vietnam.”

I testified before the Commission six years ago in the cases that were brought against PRCBs from China, Malaysia, and Thailand. At that time, the U.S. industry was in a steep downturn due to imports from these countries even though demand was very strong. The successful outcome of those cases resulted in a major improvement in our business. Our sales volumes improved, our pricing improved, and our profitability increased. In light of these marked changes for the better, we invested in new equipment, which enabled us to increase our production efficiency and our capacity.

But, we now once again face a major problem with unfair trade. From 2006 to 2008, dumped and subsidized imports from Indonesia, Taiwan, and Vietnam dramatically increased. In number of bags, the increase was 114 percent.

In 2006, the three subject countries accounted for 16 percent of imports from all countries. In 2008, they accounted for 40 percent of imports from all countries.

Using unfairly low prices, imports from the three countries more than doubled their share of the U.S. market from 2006 to 2008. These imported bags are not better than our bags. They do not have any features that our bags lack. They have been able to take such a large share of the market for a single reason -- they are very aggressively priced.

As a result, we have been deprived of some of the benefits that we previously enjoyed as a result of the orders against China, Malaysia, and Thailand.

These subject imports were offered at very low prices. We suffered many lost sales, and this has been very damaging. For example, we lost significant business at one of our largest customers in 2008 to subject imports imported by Spectrum, as detailed in our response to your questionnaire. This resulted in a significant reduction of our production, which forced us to lay off more than 60 employees. That is a reduction in employment of more than 20 percent.

Spectrum describes itself on its website as the “leading importer of printed bags to the United States.” It states that it has “three strategically-placed distribution centers, enabling {it} to quickly serve anywhere in the U.S. and Canada.” The Spectrum website also makes clear that it offers a full range of PRCB products to food service outlets and retailers, including stock T-shirt bags, custom T-shirt bags, die-cut bags, drawstring bags, patch handle bags, fold-over die-cut bags, flexi-loop handle bags, and flat-bottomed bags.

Spectrum competes with us based on price. As the bag samples I showed your earlier demonstrate, we are constantly running up against Spectrum in the U.S. market. Spectrum can compete with U.S. production with respect to quality and delivery lead-times. The only factor that distinguishes our product offerings is price. If we do not meet Spectrum prices, we lose the sale to Spectrum. If we

meet its price, we lose revenue because Spectrum can drive prices down to ruinous levels.

These lost sales also hurt us in other ways. Our equipment is designed to run continuously. And, as I indicated a moment ago, we increased our capacity after the antidumping orders were imposed, because we thought that unfair trade in the market had been eliminated. We would have operated all of this capacity continuously during the period of the investigation were it not for the imports at issue in this case. Instead, we had significant excess capacity.

In addition, because our equipment is designed to operate continuously, we were forced to try to compete with the low prices of imports to maintain some level of business. In some instances, we had no choice but to meet the low import prices head-on. We have some customers that we simply cannot afford to lose. Our operations require a baseload of volume in order to have any chance of operating successfully. This baseload consists in large part of sales to major retailers. Prior to filing the petition, imports from Indonesia, Taiwan, and Vietnam were aggressively seeking to take over that business by offering very low prices.

The price of our primary raw material input, polyethylene resin, rose significantly during 2007 and 2008. Ordinarily, this would not, by itself, present a real problem. With many customers, we have agreements that tie our price to the cost of resin, as measured by a publicly-available index. With other customers, we

have an informal understanding that our price will be adjusted to reflect changes in the price of resin. But many of our contracts have meet-or-release provisions. And others do not have the security of a fixed price for the duration of the contract. Consequently, with the surge in subject imports, we were unable to maintain an adequate margin between our selling price and cost of resin, especially in 2008.

In many cases, we were simply not able to compete successfully with the subject imports on the basis of price. In some instances, the import prices being offered to our customers were so low that we would lose money on sales to those customers if we matched the import price. This has been especially frustrating because we have very modern, cost-efficient facilities, and an efficient and trained work force that is dedicated to the production of T-shirt style retail carrier bags. But, in many instances, we just are not able to match the import prices. Thus, we have lost significant volume to those imports.

With this lost production volume, the efficiency of our operations was significantly impaired. It is expensive to stop and resume operations. You cannot simply switch extruder machinery on and off. For that reason, we normally only shut down on Christmas Day and New Year's Day. Our plant otherwise runs continuously. In 2008, however, as a result of the sales that we lost to the imports, we were forced to shut down our entire plant for 4 additional full days. We also

had to shut down substantial portion of our plant for 36 days. This drove up our unit costs significantly.

Finally, under these circumstances, we cannot make significant investments to modernize our equipment or otherwise improve our operations. With a modern highly automated facility, and declining imports from China, Malaysia, and Thailand, we should be investing in our business. Instead, we are just trying to survive. Our questionnaire response shows you what has happened to our profitability.

Since the filing of the petition, our business did better in 2009 compared to 2008. It is a given, however, that if the preliminary duties are removed, subject imports will resume their rapid penetration of the U.S. market. The increase in imports from 2006 to 2008 was dramatic. The filing of the petition has stopped the increase. But many factories in Indonesia, Taiwan, and Vietnam are waiting for your vote next month to determine what to do next. If orders are not put in place, they will view it as a green light to intensify competition with each other and with Superbag and other U.S. producers for the U.S. market. They will use their unfairly low prices to grab market share in the United States and force more U.S. plants to close. A number of the plants in Vietnam are fairly new and have excess capacity. Moreover, with the support of the Vietnamese government, they can easily add new capacity as needed to increase their exports further.

Increasing imports could not come at a worse time for this industry. Our industry faces the fact that U.S. demand may stagnate or decline as a result of the imposition of various tax and regulatory measures. In addition, some of our major customers, including Walmart, are promoting the reusable bags. Thus, we are fighting to preserve the size of the pie at the same time that foreign producers are trying to increase their share of the pie.

As a result, our future clearly depends on your affirmative votes, both in these investigations and in the pending sunset review. If fair trading is restored against imports from Indonesia, Taiwan, and Vietnam, and if fair trading is continued for China, Malaysia, and Thailand, I am confident that we will be able to compete, to maintain our Houston factory, and maintain our 250 jobs.

Thank you for the opportunity to appear before you today.